

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Oropeza Analyst: Jeff Garnier Bill Number: AB 263

Related Bills: See Prior Analysis Telephone: 845-5322 Amended Date: August 17, 2004

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Dividends Received Deduction (DRD)/Ceridian Issue

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED June 16, 2004, STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY

This bill would amend the tax statute that allows a deduction for dividends received by a parent corporation from an insurance company subsidiary because the statute was previously found to be unconstitutional. The bill would also provide disincentives for corporations subject to tax under the Corporation Tax Law (CTL) to overcapitalize insurance subsidiaries that are subject to the insurance gross premiums tax instead of the corporate income tax.

SUMMARY OF AMENDMENTS

The August 17, 2004, amendments clarify three items and make three non-substantive technical changes. The amendments clarify that:

- Dividends received from an insurance company by any member of the taxpayer's commonly control group may qualify for the dividend received deduction (DRD).
- Insurance company premiums received from a member of the taxpayer's commonly controlled group are not used in the computation of the DRD.
- Transactions between an insurance company and a general corporation, approved by an insurance regulatory agency by June 23, 2004, are not subject to the law changes of the bill affecting transactions between an insurance company and a general corporation.

Board Position:

☒ S _____ NA _____ NP
_____ SA _____ O _____ NAR
_____ N _____ OUA _____ PENDING

Legislative Director

Date

Brian Putler

8/25/04

The analysis of the bill, as amended June 16, 2004, still applies.

POSITION

Support.

On June 10, 2004, the Franchise Tax Board voted to support this bill.

LEGISLATIVE STAFF CONTACT

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